

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Mason	County Ingham
Fiscal Year End June 30, 2006	Opinion Date August 18, 2006	Date Audit Report Submitted to State December 5, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Plante & Moran, PLLC		Telephone Number 517-336-7470		
Street Address 1111 Michigan Ave		City East Lansing	State MI	Zip 48823
Authorizing CPA Signature 		Printed Name Jean Young		License Number 1101021994

City of Mason, Michigan

Financial Report with Supplemental Information June 30, 2006



City of Mason, Michigan

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Independent Auditor's Report

To the City Council
City of Mason, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mason, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Mason, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mason as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mason's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

To the City Council
City of Mason, Michigan

The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

August 18, 2006

City of Mason, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Mason, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Overview of the Financial Statements

This annual report consists of the following report sections: management's discussion and analysis (this section), the basic financial statements, required supplemental information, and other supplemental information section that presents combining statements for nonmajor governmental funds. The basic financial statements are presented in two different formats: government-wide financial statements and fund financial statements.

The government-wide financial statements include the statement of net assets and the statement of activities. These statements provide both long-term and short-term information about the City's overall financial status.

The fund financial statements include the balance sheet and the statement of revenue, expenditures, and changes in net assets/fund balances. These statements focus on individual parts of the City government and report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

The governmental fund statements tell how general government services, like police and fire, were financed in the short term as well as what remains for future spending.

The proprietary fund statements present short- and long-term financial information about those activities that the City operates in a business-like manner, such as the water and sewer system.

The fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information presented in the financial statements. In addition to these required supplementary schedules, we have provided a section with combining statements that provide details about our nonmajor governmental and fiduciary funds.

Government-wide Financial Statements

The City's government-wide statements begin on page 11 of this report. These statements report information about the City as a whole under the full accrual method of accounting, which is similar to the accounting used by most private-sector companies. The statement of net assets includes all, both current and long-term, of the government's assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid.

City of Mason, Michigan

Management's Discussion and Analysis (Continued)

The combined objective of the government-wide statements is to report the City's net assets and how they have changed. The reporting of net assets is one way to measure the City's financial health or position.

Over time, increases or decreases in the City's net assets can be viewed as indicators of whether its financial health is improving or deteriorating, respectively.

In addition to the financial factors, you will need to consider additional information such as changes in the City's property tax base to assess the overall health.

The City's government-wide financial statements divide the reported information into three categories:

- **Governmental activities** - Most of the City's basic services are included here, such as police, fire, cemetery, parks, and general administration. Property taxes and state revenue sharing are used to finance most of these activities.
- **Business-type activities** - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system is included in this category.
- **Component units** - The City includes other legal entities in its report such as the Downtown Development Authority and the Local Development Finance Authority. The City is financially accountable for these "component units" although they are legally separate entities.

Fund Financial Statements

The City's fund financial statements begin on page 14 of this report. These statements provide more detailed information about the City's most significant funds. The City uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law and others are established by the City to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

City of Mason, Michigan

Management's Discussion and Analysis (Continued)

The City has three kinds of funds that use different accounting approaches:

- Governmental funds - Most of the City's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. These funds are reported using the modified accrual accounting method that measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we describe the relationship (or differences) between government activities and governmental funds in reconciliation at the bottom of the fund financial statements (pages 15 and 17).
- Proprietary funds - When the City charges customers fees for the services it provides, the fees are generally reported in proprietary funds. Similar to the reporting method used on the government-wide statements, proprietary funds provide both long- and short-term financial information.
 - In fact, the City's Enterprise Fund (water and sewer) is the same as its business-type activity, but provides more detail and additional information.
 - We use an Internal Service Fund (the other type of proprietary fund) to report activities that provide services and supplies to other programs and activities within the City. The City's Motor Vehicle Pool Fund falls into this category.
- Fiduciary funds - The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The delinquent tax and payroll funds are fiduciary funds.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- The City's total net assets increased as a result of the fiscal year's operations. The net assets of our business-type activities increased by \$1.0 million, or 8.3 percent, and net assets of our governmental activities increased by \$2.1 million, or 30.0 percent.
- During the year, the City had revenues that were \$2.1 million more than the \$3.5 million in expenses.

City of Mason, Michigan

Management's Discussion and Analysis (Continued)

- In the City's business-type activities, revenues were \$2.9 million while expenses were \$1.8 million.
- Total costs of all the City's programs were \$5.3 million.
- The General Fund reported a minimal decrease of \$594.

The City as a Whole

As described in Note 11, net assets for the prior year have been restated. The following table shows, in a condensed format, the current year's net assets for the years ended June 30, 2006 and 2005, including restated amounts:

	Governmental Activities (as restated)		Business-type Activities (as restated)		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 5,415,231	\$ 5,512,792	\$ 5,031,704	\$ 4,833,629	\$ 10,446,935	\$ 10,346,421
Noncurrent assets	6,013,348	5,086,005	8,980,602	8,299,591	14,993,950	13,385,596
Total assets	11,428,579	10,598,797	14,012,306	13,133,220	25,440,885	23,732,017
Liabilities						
Current liabilities	380,648	2,299,963	102,485	252,952	483,133	2,552,915
Long-term liabilities	1,892,080	1,253,758	150,339	168,206	2,042,419	1,421,964
Total liabilities	2,272,728	3,553,721	252,824	421,158	2,525,552	3,974,879
Net Assets						
Invested in capital assets -						
Net of related debt	4,213,461	3,927,045	8,909,257	8,042,767	13,122,718	11,969,812
Restricted	1,942,422	1,951,259	-	-	1,942,422	1,951,259
Unrestricted	2,999,968	1,166,772	4,850,225	4,669,295	7,850,193	5,836,067
Total net assets	<u>\$ 9,155,851</u>	<u>\$ 7,045,076</u>	<u>\$ 13,759,482</u>	<u>\$ 12,712,062</u>	<u>\$ 22,915,333</u>	<u>\$ 19,757,138</u>

The City's combined net assets were increased from a year ago from \$19.8 million to \$22.9 million.

Approximately 46.0 percent of the City's net assets of governmental activities reflect its investment in capital less any related debt used to acquire those assets. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets of governmental activities of \$3.0 million represent the amount that may be used to meet the City's ongoing obligations.

Net assets of the City's governmental activities increased by nearly 30.0 percent to \$9.2 million. A significant portion of the increase was due to the City having recognized revenue related to now-earned special assessment revenue for projects that were completed in the current year. In the prior fiscal year, these amounts were deferred revenue (Note 6 and Note 11). These amounts have also been added to capital assets as infrastructure additions.

City of Mason, Michigan

Management's Discussion and Analysis (Continued)

The net assets of our business-type activities increased by 8.2 percent or to \$13.8 million during the fiscal year. This increase is due to revenues exceeding expenses and continued investment in infrastructure (water and sewer mains) without additional debt being incurred.

The following table illustrates the varying results of the governmental activities and business-type activities, which combine to capture the City's total net assets, for the years ended June 30, 2006 and 2005.

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 811,023	\$ 945,539	\$ 1,897,891	\$ 2,059,949	\$ 2,708,914	\$ 3,005,488
Operating grants and contributions	503,624	516,196	-	-	503,624	516,196
Capital grants and contributions	1,021,723	-	909,444	159,659	1,931,167	159,659
General revenue:						
Property taxes	2,453,396	2,398,485	-	-	2,453,396	2,398,485
State-shared revenue	659,474	665,033	-	-	659,474	665,033
Investment earnings	115,376	91,608	67,658	75,231	183,034	166,839
Miscellaneous	3,371	343,039	-	40,329	3,371	383,368
Total revenue	5,567,987	4,959,900	2,874,993	2,335,168	8,442,980	7,295,068
Program Expenses						
General government	1,193,132	1,390,361	-	-	1,193,132	1,390,361
Public safety	1,235,424	1,348,603	-	-	1,235,424	1,348,603
Public works	772,718	549,574	-	-	772,718	549,574
Community and economic development	7,710	8,395	-	-	7,710	8,395
Recreation and culture	193,025	185,980	-	-	193,025	185,980
Interest on long-term debt	55,203	59,895	-	-	55,203	59,895
Water and sewer	-	-	1,827,573	1,511,429	1,827,573	1,511,429
Total program expenses	3,457,212	3,542,808	1,827,573	1,511,429	5,284,785	5,054,237
Change in Net Assets	\$ 2,110,775	\$ 1,417,092	\$ 1,047,420	\$ 823,739	\$ 3,158,195	\$ 2,240,831

Governmental Activities

- The cost of all governmental activities this year was \$3.5 million.
- The amount that City taxpayers paid for these activities through City taxes was only \$2.5 million.
- Some of the cost was paid by the beneficiaries of the program's activities (\$0.8 million), or by other governments and organizations that subsidized certain programs with grants and contributions (\$1.5 million).

City of Mason, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

- Total revenues of the City's business-type activities, water and sewer, increased to \$2.9 million for 2006 from \$2.3 million in 2005 and total expenses also increased to \$1.8 million in 2006 from \$1.5 million in 2005. The City experienced a change in net assets of \$1.0 million in its water and sewer operations. Factors contributing to these results included:
 - Capital contributions of \$0.9 million
 - Increase in water and sewer sales due to replacement of old less efficient water meters with new meters and radio read system

The City's Funds

Our analysis of the City's major funds begins on page 14, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2006 include the General Fund, the Local Street Fund, and the Special Assessment Fund. These funds, along with the remaining nonmajor funds, reported a combined fund balance of \$2.7 million, and showed a minimal increase over last year's combined fund balance of \$2.6 million.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several times. We began the year expecting to set aside additional funds in the General Fund earmarked specifically for future City Hall improvements. The original budget predicted a surplus of \$0.2 million. We amended the budget to reflect the use of City funds to purchase additional property adjacent to the current City Hall for future expansion.

The City ended the year with a shortfall of \$594.

City of Mason, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of the 2006 fiscal year, the City had invested approximately \$15.0 million in a broad range of capital assets, including police equipment, buildings and improvements, computer equipment and software, parks and recreational facilities, roads, and water and sewer lines (see Table 3 below).

Table 3

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land	\$ 1,426,251	\$ 1,276,251	\$ 25,609	\$ 25,609	\$ 1,451,860	\$ 1,301,860
Construction in progress	960,050	903,490	1,039,002	369,223	1,999,052	1,272,713
Land improvements	793,000	769,253	-	-	793,000	769,253
Buildings and improvements	1,535,960	1,534,512	455,637	455,637	1,991,597	1,990,149
Infrastructure	2,194,957	1,374,280	12,746,179	12,362,858	14,941,136	13,737,138
Vehicles and equipment	2,121,002	2,119,406	-	-	2,121,002	2,119,406
Subtotal assets	9,031,220	7,977,192	14,266,427	13,213,327	23,297,647	21,190,519
Accumulated depreciation	3,017,872	2,891,187	5,285,825	4,913,736	8,303,697	7,804,923
Net capital assets	<u>\$ 6,013,348</u>	<u>\$ 5,086,005</u>	<u>\$ 8,980,602</u>	<u>\$ 8,299,591</u>	<u>\$ 14,993,950</u>	<u>\$ 13,385,596</u>

This year's major additions to capital assets included:

- Purchase of land for the construction of new City Hall - \$150,000
- Temple Street/Rayner Creek construction - \$877,000
- Construction in progress for Temple Street/Rayner Creek infrastructure - \$1.0 million

Debt

At year end, the City had \$1.9 million in bonds and notes outstanding. This represents a \$455,000 increase from the previous year (see Table 4 below). More detailed information about the City's long-term liabilities is presented in Note 7 to the basic financial statements.

Table 4

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
General obligations debt	\$ 752,887	\$ 817,960	\$ -	\$ -	\$ 752,887	\$ 817,960
Special assessment obligation bonds	1,047,000	341,000	-	-	1,047,000	341,000
Revenue bonds	-	-	71,345	256,824	71,345	256,824
Total	<u>\$ 1,799,887</u>	<u>\$ 1,158,960</u>	<u>\$ 71,345</u>	<u>\$ 256,824</u>	<u>\$ 1,871,232</u>	<u>\$ 1,415,784</u>

City of Mason, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The City's budget for the 2006/2007 fiscal year is balanced with no property tax rate increase. Estimated property tax revenues are expected to increase by approximately \$0.3 million from the prior year due mainly to added tax base from new development. New industrial development is expected to increase future revenues.

Total expenses in the General Fund for the 2006/2007 fiscal year are estimated to be \$4.5 million. Included in those costs are the General Fund's contributions to support the streets program (\$0.7 million), improvements to Laylin Park (\$52,000), and the first payment for a new fire truck (\$55,000). A portion of the anticipated surplus will be used to finance future improvements to City Hall.

Due to revised radium standards, the City of Mason is in the process of planning improvements to its water treatment plant. At least one new well site is also needed. Testing over the last two years has ruled out several potential sites. The capital charge for water usage was increased for 2006/2007 to cover some of the costs associated with these projects.

Contacting the City's Management

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the City administrator's office at the City of Mason, 517-676-9155.

City of Mason, Michigan

Statement of Net Assets June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 3,052,624	\$ 4,643,227	\$ 7,695,851	\$ 1,051,101
Receivables:				
Taxes	25,691	-	25,691	12,201
Customer	10,146	335,369	345,515	-
Assessments	2,002,564	-	2,002,564	-
Due from other governmental units	309,413	1,018	310,431	2,435
Other	12,902	-	12,902	-
Internal balances	(519)	519	-	-
Inventories	-	28,554	28,554	-
Prepaid costs and other assets	2,410	23,017	25,427	718
Capital assets - Net (Note 4):				
Nondepreciable	2,386,301	1,064,611	3,450,912	-
Depreciable	3,627,047	7,915,991	11,543,038	284,234
Total assets	11,428,579	14,012,306	25,440,885	1,350,689
Liabilities				
Accounts payable	43,481	50,983	94,464	-
Accrued and other liabilities	91,884	-	91,884	9,776
Due to other governmental units	102	-	102	750
Deferred revenue (Note 6)	5,213	-	5,213	-
Current portion of long-term liabilities:				
Compensated absences	109,028	38,475	147,503	-
Long-term debt (Note 7)	130,940	13,027	143,967	334,448
Noncurrent portion of long-term liabilities:				
Compensated absences	223,133	92,021	315,154	-
Long-term debt (Note 7)	1,668,947	58,318	1,727,265	1,469,412
Total liabilities	2,272,728	252,824	2,525,552	1,814,386
Net Assets				
Invested in capital assets - Net of related debt	4,213,461	8,909,257	13,122,718	284,234
Restricted:				
Streets and highways	637,102	-	637,102	-
Debt service funds	274,057	-	274,057	-
Capital improvements	56,942	-	56,942	-
Cemetery	296,730	-	296,730	-
Rayner Bond	486,614	-	486,614	-
Construction code activities	190,977	-	190,977	-
Unrestricted	2,999,968	4,850,225	7,850,193	(747,931)
Total net assets	\$ 9,155,851	\$ 13,759,482	\$ 22,915,333	\$ (463,697)

City of Mason, Michigan

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,193,132	\$ 303,215	\$ 60,291	\$ 24,065
Public safety	1,235,424	176,933	1,048	-
Public works	772,718	302,080	442,085	997,658
Community and economic development	7,710	28,465	200	-
Recreation and culture	193,025	330	-	-
Interest expense	55,203	-	-	-
Total governmental activities	3,457,212	811,023	503,624	1,021,723
Business-type activities - Water and sewer	1,827,573	1,897,891	-	909,444
Total primary government	<u>\$ 5,284,785</u>	<u>\$ 2,708,914</u>	<u>\$ 503,624</u>	<u>\$ 1,931,167</u>
Component units:				
Local Development Finance Authority	\$ 330,401	\$ -	\$ -	\$ -
Downtown Development Authority	81,569	-	-	-
Economic Development Committee	-	-	-	-
Total component units	<u>\$ 411,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Investment earnings				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year as restated (Note 11)				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (805,561)	\$ -	\$ (805,561)	\$ -
(1,057,443)	-	(1,057,443)	-
969,105	-	969,105	-
20,955	-	20,955	-
(192,695)	-	(192,695)	-
(55,203)	-	(55,203)	-
(1,120,842)	-	(1,120,842)	-
-	979,762	979,762	-
(1,120,842)	979,762	(141,080)	-
-	-	-	(330,401)
-	-	-	(81,569)
-	-	-	-
-	-	-	(411,970)
2,453,396	-	2,453,396	711,828
659,474	-	659,474	-
115,376	67,658	183,034	43,359
3,371	-	3,371	-
3,231,617	67,658	3,299,275	755,187
2,110,775	1,047,420	3,158,195	343,217
7,045,076	12,712,062	19,757,138	(806,914)
\$ 9,155,851	\$ 13,759,482	\$ 22,915,333	\$ (463,697)

City of Mason, Michigan

Governmental Funds Balance Sheet June 30, 2006

	General Fund	Local Street Fund	Special Assessment Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	\$ 858,825	\$ 138,659	\$ 273,792	\$ 1,288,435	\$ 2,559,711
Receivables:					
Property taxes	25,691	-	-	-	25,691
Special assessments	-	-	2,002,564	-	2,002,564
Other governmental units	109,825	19,612	-	54,090	183,527
Other	23,364	-	-	126	23,490
Prepaid costs and other assets	2,410	-	-	-	2,410
Due from other funds (Note 5)	2,276	1,712	-	2,513	6,501
Total assets	<u>\$ 1,022,391</u>	<u>\$ 159,983</u>	<u>\$ 2,276,356</u>	<u>\$ 1,345,164</u>	<u>\$ 4,803,894</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 23,328	\$ 20,152	\$ -	\$ -	\$ 43,480
Accrued and other liabilities	67,327	442	-	-	67,769
Due to other governmental units	102	-	-	-	102
Due to other funds (Note 5)	801	-	-	6,900	7,701
Deferred revenue (Note 6)	5,213	-	2,002,564	-	2,007,777
Total liabilities	96,771	20,594	2,002,564	6,900	2,126,829
Fund Balances					
Reserved for:					
Construction code activities	190,977	-	-	-	190,977
Cemetery trust	-	-	-	296,730	296,730
Unreserved, reported in:					
General Fund	734,643	-	-	-	734,643
Special Revenue Funds	-	139,389	273,792	984,327	1,397,508
Debt Service Funds	-	-	-	265	265
Capital Projects Funds	-	-	-	56,942	56,942
Total fund balances	<u>925,620</u>	<u>139,389</u>	<u>273,792</u>	<u>1,338,264</u>	<u>2,677,065</u>
Total liabilities and fund balances	<u>\$ 1,022,391</u>	<u>\$ 159,983</u>	<u>\$ 2,276,356</u>	<u>\$ 1,345,164</u>	<u>\$ 4,803,894</u>

City of Mason, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2006

Fund Balance - Total Governmental Funds	\$ 2,677,065
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	5,777,682
Internal Service Funds are included as part of governmental activities	720,215
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	2,002,564
Various receivables are not expected to be collected within 60 days of year end and are not available to pay for current year expenditures	125,886
Accumulated employee paid time-off is recorded when earned in the statement of activities	(323,117)
Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the funds	<u>(1,824,444)</u>
Net Assets - Governmental Activities	<u><u>\$ 9,155,851</u></u>

City of Mason, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2006

	General Fund	Local Street Fund	Special Assessment Fund	Other Governmental Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 2,453,396	\$ -	\$ -	\$ -	\$ 2,453,396
Licenses and permits	41,524	-	-	-	41,524
State-shared revenues and state grants	660,722	114,583	-	327,502	1,102,807
Local sources	447,730	20,586	-	-	468,316
Special assessment revenue	-	-	60,291	-	60,291
Refuse collection	275,933	-	-	-	275,933
Charges for services	196,455	21,436	-	7,315	225,206
Cable franchise fees	32,188	-	-	-	32,188
Fines and forfeitures	109,271	-	-	-	109,271
Interest and rentals	48,988	4,804	10,389	83,019	147,200
Other	70,490	-	-	3,769	74,259
Total revenue	4,336,697	161,409	70,680	421,605	4,990,391
Expenditures					
Current:					
General government	1,671,781	-	-	-	1,671,781
Public safety	1,224,880	-	-	-	1,224,880
Public works	346,463	1,039,912	-	275,602	1,661,977
Community and economic development	7,710	-	-	-	7,710
Recreation and culture	191,894	-	-	-	191,894
Capital outlay	-	-	-	15,877	15,877
Debt service	-	-	60,096	97,645	157,741
Total expenditures	3,442,728	1,039,912	60,096	389,124	4,931,860
Excess of Revenue Over (Under) Expenditures	893,969	(878,503)	10,584	32,481	58,531
Other Financing Sources (Uses)					
Transfers in (Note 5)	9,645	848,652	-	97,371	955,668
Transfers out (Note 5)	(904,208)	-	-	(51,460)	(955,668)
Financing proceeds from debt	-	-	750,000	-	750,000
Reimbursement to Water and Sewer Fund	-	-	(750,000)	-	(750,000)
Total other financing sources (uses)	(894,563)	848,652	-	45,911	-
Net Change in Fund Balances	(594)	(29,851)	10,584	78,392	58,531
Fund Balances - Beginning of year, as restated (Note 11)	926,214	169,240	263,208	1,259,872	2,618,534
Fund Balances - End of year	<u>\$ 925,620</u>	<u>\$ 139,389</u>	<u>\$ 273,792</u>	<u>\$ 1,338,264</u>	<u>\$ 2,677,065</u>

City of Mason, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ 58,531

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation:

Capital outlay	995,523
Depreciation	(108,991)

Internal Service Funds are included as part of governmental activities	96,471
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Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	1,747,658
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Interest expense is recorded in the statement of activities when incurred; it is not reported in the funds until paid or payable within 60 days of year end	(13,472)
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State-shared revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	274
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	109,020
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Bond proceeds are not reported as financing sources on the statement of activities	(750,000)
--	-----------

Change in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	(24,239)
---	----------

Change in Net Assets of Governmental Activities \$ 2,110,775

City of Mason, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

	Water and Sewer	Internal Service Fund - Motor Pool
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 4,643,227	\$ 492,913
Customer receivables	335,369	-
Due from other funds (Note 5)	1,200	681
Due from other governmental units	1,018	-
Inventory	28,554	-
Prepaid and other assets	23,017	-
Total current assets	5,032,385	493,594
Noncurrent assets - Capital assets (Note 4)	8,980,602	235,665
Total assets	14,012,987	729,259
Liabilities		
Current liabilities:		
Accounts payable	50,983	-
Accrued and other liabilities	-	9,044
Due to other funds (Note 5)	681	-
Current portion of long-term liabilities:		
Compensated absences	38,475	-
Long-term debt (Note 7)	13,027	-
Total current liabilities	103,166	9,044
Noncurrent liabilities:		
Compensated absences	92,021	-
Long-term debt (Note 7)	58,318	-
Total noncurrent liabilities	150,339	-
Total liabilities	253,505	9,044
Net Assets		
Investment in capital assets - Net of related debt	8,909,257	235,665
Unrestricted	4,850,225	484,550
Total net assets	<u>\$ 13,759,482</u>	<u>\$ 720,215</u>

City of Mason, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Water and Sewer	Internal Service Fund - Motor Pool
Operating Revenue		
User charges	\$ 1,734,964	\$ 311,117
Interest and penalty charges	29,339	-
Other charges for services	<u>133,588</u>	<u>3,672</u>
Total operating revenue	1,897,891	314,789
Operating Expenses		
Cost of water produced	120,802	-
Cost of sewage treatment	632,690	-
Operation and maintenance	569,066	167,590
Billing and administrative costs	116,723	-
Depreciation	<u>372,089</u>	<u>64,956</u>
Total operating expenses	<u>1,811,370</u>	<u>232,546</u>
Operating Income	86,521	82,243
Nonoperating Revenue (Expense)		
Investment income	67,658	14,228
Interest expense	<u>(16,203)</u>	<u>-</u>
Income - Before capital contributions	137,976	96,471
Capital Contributions	<u>909,444</u>	<u>-</u>
Change in Net Assets	1,047,420	96,471
Net Assets - Beginning of year, as restated (Note 11)	<u>12,712,062</u>	<u>623,744</u>
Net Assets - End of year	<u><u>\$ 13,759,482</u></u>	<u><u>\$ 720,215</u></u>

City of Mason, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Water and Sewer	Internal Service Fund - Motor Pool
Cash Flows from Operating Activities		
Receipts from customers	\$ 1,883,987	\$ 316,201
Payments to suppliers	(817,611)	(129,244)
Payments to employees	(603,845)	(39,907)
Net cash provided by operating activities	462,531	147,050
Cash Flows from Capital and Related Financing Activities -		
Principal and interest paid on capital debt	(208,662)	-
Cash Flows from Investing Activities		
Purchase of capital assets	(143,656)	(67,316)
Interest received on investments	67,658	14,228
Net cash used in investing activities	(75,998)	(53,088)
Net Increase in Cash and Cash Equivalents	177,871	93,962
Cash and Cash Equivalents - Beginning of year	4,465,356	398,951
Cash and Cash Equivalents - End of year	\$ 4,643,227	\$ 492,913
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 86,521	\$ 82,243
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	372,089	64,956
Changes in assets and liabilities:		
Receivables	(32,505)	13
Due from other funds	980	1,399
Due from other governmental units	(1,018)	-
Inventory	5,219	-
Prepaid and other assets	13,420	-
Accounts payable	26,270	(1,084)
Due to other funds	(495)	-
Accrued and other liabilities	(7,950)	(477)
Net cash provided by operating activities	\$ 462,531	\$ 147,050

Noncash Capital and Related Financing Activities - During the year ended June 30, 2006, a total of \$909,444 of capital assets were contributed to the Water and Sewer Fund from special assessments and the Local Development Finance Authority in the amounts of \$750,000 and \$159,444, respectively.

City of Mason, Michigan

Fiduciary Funds **Statement of Fiduciary Assets and Liabilities** **June 30, 2006**

	<u>Agency Funds</u>
Assets - Cash and cash equivalents (Note 3)	<u><u>\$ 40,016</u></u>
Liabilities	
Accrued and other liabilities	\$ 29,602
Due to other governmental units	<u>10,414</u>
Total liabilities	<u><u>\$ 40,016</u></u>

City of Mason, Michigan

Component Units Statement of Net Assets June 30, 2006

	Local Development Finance Authority	Downtown Development Authority	Economic Development Corporation	Total
Assets				
Cash and cash equivalents (Note 3)	\$ 913,162	\$ 118,642	\$ 19,297	\$ 1,051,101
Receivables:				
Taxes	-	12,201	-	12,201
Other	-	2,383	52	2,435
Prepaid costs and other assets	-	718	-	718
Net capital assets (Note 4)	<u>284,234</u>	<u>-</u>	<u>-</u>	<u>284,234</u>
Total assets	1,197,396	133,944	19,349	1,350,689
Liabilities				
Accrued and other liabilities	9,776	-	-	9,776
Due to other governmental units	626	124	-	750
Current portion of long-term debt (Note 7)	334,448	-	-	334,448
Noncurrent liabilities - Long-term debt - Net of current portion (Note 7)	<u>1,469,412</u>	<u>-</u>	<u>-</u>	<u>1,469,412</u>
Total liabilities	<u>1,814,262</u>	<u>124</u>	<u>-</u>	<u>1,814,386</u>
Net Assets				
Invested in capital assets - Net of related debt	284,234	-	-	284,234
Unrestricted	<u>(901,100)</u>	<u>133,820</u>	<u>19,349</u>	<u>(747,931)</u>
Total net assets	<u>\$ (616,866)</u>	<u>\$ 133,820</u>	<u>\$ 19,349</u>	<u>\$ (463,697)</u>

City of Mason, Michigan

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Local Development Finance Authority	\$ 330,401	\$ -	\$ -	\$ -
Downtown Development Authority	81,569	-	-	-
Economic Development Corporation	-	-	-	-
Total component units	<u>\$ 411,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Property taxes

Investment earnings

Total general revenues

Change in Net Assets

Net Assets - Beginning of year, as restated (Note 11)

Net Assets - End of year

Component Units
Statement of Activities
June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Local Development Finance Authority	Downtown Development Authority	Economic Development Corporation	Total
\$ (330,401)	\$ -	\$ -	\$ (330,401)
-	(81,569)	-	(81,569)
-	-	-	-
(330,401)	(81,569)	-	(411,970)
650,741	61,087	-	711,828
38,806	3,993	560	43,359
689,547	65,080	560	755,187
359,146	(16,489)	560	343,217
(976,012)	150,309	18,789	(806,914)
\$ (616,866)	\$ 133,820	\$ 19,349	\$ (463,697)

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Mason, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Mason, Michigan:

Reporting Entity

The City of Mason is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

The criteria established by GASB for determining which of the City's various organizations and activities are to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the City.

Discretely Presented Component Units

The following entities are listed as discretely presented component units of the City in the component unit column to emphasize their legally separate status from the primary government. The City is financially accountable, and exclusion from the government-wide financial statements would be misleading or incomplete. Separate financial statements for the component units are not available.

The Downtown Development Authority (DDA) was established in order to work in cooperation with the City Council in order to correct and prevent deterioration of the Downtown District of the City, to promote economic growth and revitalization, to encourage historic preservation, to address problems of urban decline, and to strengthen existing areas and encourage new private development within the Downtown District. The DDA's governing body, which consists of the City mayor and eight other individuals, is appointed by the City Council. Additionally, the DDA's budget is subject to approval by the City Council. The DDA may issue debt payable solely from tax increment revenues. The full faith and credit of the City may be given for the debt of the DDA.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Local Development Finance Authority (LDFA) was established by the City of Mason and the Township of VeVay as a condition of an agreement to transfer approximately 134 acres of land from the Township to the City. The purpose of the LDFA is to help stimulate economic growth, improve employment, stimulate new private investment in the City of Mason and VeVay Township, and to broaden the local tax base.

The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, and expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine individuals, is appointed by the City administrator with the approval of the City Council.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City of Mason and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. The primary government of the City of Mason is reported separately from certain legally separate component units for which the City of Mason is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary funds and the fiduciary fund financial statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, expenditures for debt service, compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City of Mason.

The City of Mason reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Local Street Fund - The Local Street Fund accounts for local street improvement and resurfacing projects.

Special Assessment Fund - The Special Assessment Fund accounts for the payment of interest and principal on all special assessment debt.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City of Mason reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for utility operations that are financed primarily by user charges.

Additionally, the City of Mason reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to finance particular activities and are created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory provisions to pay for certain activities with some special form of continuing revenues.

Debt Service Funds - Debt Service Funds are used to account for payment of interest and principal on general obligation debt of governmental funds.

Capital Projects Funds - Capital Projects Funds account for resources expended to acquire assets of a relatively permanent nature.

Permanent Fund - The Permanent Fund accounts for resources which are restricted, and upon only the income earned may be apportioned toward expenditures.

Internal Services Fund - The Internal Services Fund is used to account for Motor Vehicles Pool Services provided to other departments on a cost reimbursement basis.

Fiduciary Funds - Fiduciary Funds account for resources reserved and held by a governmental unit as the trustee or as the agent for others.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City of Mason has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for Enterprise Funds and Internal Services Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City of Mason's policy to use restricted resources first. Unrestricted resources are used as they are needed.

Property Tax Revenue - Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31, with the final collection date of February 28 before they are returned to the County as delinquent.

The 2005 taxable valuation of the City totaled \$189 million, on which ad valorem taxes levied consisted of 13.250 mills for operating purposes. This resulted in \$2.5 million for operating purposes. These amounts are recognized in the General Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Receivables have been recognized for all significant amounts due to the City. No allowances have been made for noncollectible accounts because most delinquent receivables can be added to the tax roll if they remain unpaid and become a lien against the property.

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories - Inventories of materials and supplies are stated at the lower of cost (first-in, first-out) or market. The cost is accounted for as an expenditure at the time the inventories are used.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., bridges, sidewalks, and similar items since the adoption of GASB No. 34), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City of Mason as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year.

As allowed under GASB No. 34, the City has elected to postpone the retroactive recognition of certain infrastructure assets, including roads, sidewalks, and bridges, until the fiscal year ending June 30, 2007.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements and all proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statements of net assets. Straight-line depreciation methods are applied over the estimated useful lives of capital assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Land improvements	10-40 years
Buildings and improvements	10-40 years
Equipment	5-20 years
Vehicles	3-10 years
Utility systems	20-67 years
Infrastructure	40 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. City employees are granted vacation amounts based on length of service. Sick pay is earned at the rate of eight hours per month. The City's policy provides for payment of unused vacation, but not sick pay, to terminated employees. Retiring employees are paid for unused vacation and a portion of sick pay. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment, generally when an individual's employment has terminated as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

Fund Deficits - The Local Development Finance Authority had a net asset deficit at the government-wide basis at year end of \$616,866, however; on the modified accrual basis of accounting which is used on the fund-based statements, there was not a deficit balance. The Local Development Finance Authority will capture property taxes in the future to eliminate this deficit.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The City has designated three banks for the deposit of its funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997, as amended. The City's policy further restricts investment purchases to banks that maintain a principal branch within the City of Mason, and that commercial paper must be within the highest classification established by two or more standard rating services. In addition, the City's investment policy indicates that the treasurer shall diversify the investments by security type and institution. With the exception of U.S. Treasury securities and authorized investment pools, no more than 60 percent of the total investment portfolio will be invested in a single security type or with a single financial institution. Also, the City's securities purchased will have a maximum maturity of no longer than 270 days.

The City's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. At year end, the City and the component units of the City had \$8,939,086 and \$280,961 of bank deposits (certificates of deposit, checking, and savings accounts), respectively, of which \$300,000 and \$108,909, respectively, is covered by federal depository insurance and the remainder is uninsured and uncollateralized. The City and the component units of the City believe that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City and the component units of the City evaluate each financial institution with which they deposit funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Mason, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets

Capital asset activity of the primary government's governmental, business-type activities, and component units was as follows:

Governmental Activities	Balance July 1, 2005	Reclassifi- cations	Additions	Disposals	Balance June 30, 2006
Capital assets not being depreciated:					
Land	\$ 1,276,251	\$ -	\$ 150,000	\$ -	\$ 1,426,251
Construction in progress	903,490	(820,677)	877,237	-	960,050
Subtotal	2,179,741	(820,677)	1,027,237	-	2,386,301
Capital assets being depreciated:					
Land improvements	769,253	23,747	-	-	793,000
Buildings and improvements	1,534,512	1,448	-	-	1,535,960
Infrastructure	1,374,280	820,677	-	-	2,194,957
Vehicles and equipment	2,119,406	(25,195)	74,053	(47,262)	2,121,002
Subtotal	5,797,451	820,677	74,053	(47,262)	6,644,919
Accumulated depreciation:					
Land improvements	378,652	15,584	23,697	-	417,933
Buildings and improvements	584,792	(3,580)	33,299	-	614,511
Infrastructure	17,179	-	44,615	-	61,794
Vehicles and equipment	1,910,564	(12,004)	72,336	(47,262)	1,923,634
Subtotal	2,891,187	-	173,947	(47,262)	3,017,872
Net capital assets being depreciated	2,906,264	820,677	(99,894)	-	3,627,047
Net capital assets	\$ 5,086,005	\$ -	\$ 927,343	\$ -	\$ 6,013,348

City of Mason, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2005	Reclassifi- cations	Additions	Disposals	Balance June 30, 2006
Capital assets not being depreciated:					
Land	\$ 25,609	\$ -	\$ -	\$ -	\$ 25,609
Construction in progress	369,223	(369,223)	1,039,002	-	1,039,002
Subtotal	394,832	(369,223)	1,039,002	-	1,064,611
Capital assets being depreciated:					
Buildings and improvements	455,637	-	-	-	455,637
Infrastructure	12,362,858	369,223	14,098	-	12,746,179
Subtotal	12,818,495	369,223	14,098	-	13,201,816
Accumulated depreciation:					
Buildings and improvements	71,839	-	81,363	-	153,202
Infrastructure	4,841,897	-	290,726	-	5,132,623
Subtotal	4,913,736	-	372,089	-	5,285,825
Net capital assets being depreciated	7,904,759	369,223	(357,991)	-	7,915,991
Net capital assets	<u>\$ 8,299,591</u>	<u>\$ -</u>	<u>\$ 681,011</u>	<u>\$ -</u>	<u>\$ 8,980,602</u>
 Component Units	 Balance July 1, 2005	 Reclassifi- cations	 Additions	 Disposals	 Balance June 30, 2006
Capital assets being depreciated - Equipment	\$ 710,587	\$ -	\$ -	\$ -	\$ 710,587
Accumulated depreciation - Equipment	355,294	-	71,059	-	426,353
Net capital assets	<u>\$ 355,293</u>	<u>\$ -</u>	<u>\$ (71,059)</u>	<u>\$ -</u>	<u>\$ 284,234</u>

City of Mason, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 103,772
Public safety	23,119
Public works	45,925
Recreation and culture	<u>1,131</u>

Total governmental activities	<u>\$ 173,947</u>
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Business-type activities	<u>\$ 372,089</u>
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Component units	<u>\$ 71,059</u>
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Construction Commitments - The City and the Downtown Development Authority each have one construction project that is underway at June 30, 2006. The City project relates to the Sanitary District and road project for Rayner Creek. The Downtown Development Authority project relates to the refurbishing of the walkway behind the court building, designated Ingham Court. At year end, the City and the Downtown Development Authority's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Primary Government - 2005 Rayner Creek project	<u>\$ 1,907,770</u>	<u>\$ 441,212</u>
Downtown Development Authority - Ingham Court	<u>\$ 9,591</u>	<u>\$ 74,825</u>

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Nonmajor governmental funds	\$ 2,276
Local Street Fund	Nonmajor governmental funds	1,712
Nonmajor governmental funds	General Fund	801
Nonmajor governmental funds	Nonmajor governmental funds	1,712
Motor Vehicle Pool Fund	Water and Sewer Fund	681
Water and Sewer Fund	Capital Improvements Fund	1,200
Total		<u>\$ 8,382</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
Interfund Transfers		
General Fund	Local Street Fund	\$ 806,837
General Fund	Nonmajor governmental funds	97,371
Nonmajor governmental funds	General Fund	9,645
Nonmajor governmental funds	Local Street Fund	41,815
Total		<u>\$ 955,668</u>

The transfer from the General Fund to the Local Street Fund represents the use of tax revenue for street construction and repair. The transfer from the General Fund to the nonmajor governmental funds represents transfers for various debt service payments. The transfer from the nonmajor governmental funds to the Local Street Fund represents application of residual funds toward local street construction and repair.

Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned	Total
Special assessments and other	\$ 2,002,564	\$ 5,213	\$ 2,007,777

Note 7 - Long-term Debt

The City issued bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are reviewed.

City of Mason, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Long-term obligations can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General obligations:						
Dart National Bank Loan - Equipment:						
Amount of issue - \$39,170	4.90%	\$6,430	\$ 6,483	\$ (6,483)	\$ -	\$ -
Maturing through 2005						
Dart National Bank Loan - Honeywell System:						
Amount of issue - \$247,000	4.90%	\$20,000-	83,000	(19,000)	64,000	20,000
Maturing through 2009		\$23,000				
Dart National Bank Loan - Land Purchase:						
Amount of issue - \$325,877	4.80%	\$19,349-	260,241	(18,290)	241,951	19,349
Maturing through 2016		\$29,828				
Mason State Bank Loan - Land Purchase:						
Amount of issue - \$115,500	4.65%	\$6,591-	98,236	(6,300)	91,936	6,591
Maturing through 2017		\$10,384				
1997 Building Authority Bonds						
Amount of issue - \$450,000	3.85%-	\$20,000-	370,000	(15,000)	355,000	20,000
Maturing through 2018	5.15%	\$40,000				
Special Assessment Obligation Bonds:						
1996 Special Assessment						
Amount of issue - \$205,000	4.45%-	\$15,000	95,000	(20,000)	75,000	15,000
Maturing through 2010	5.50%					
1998 Special Assessment						
Amount of issue - \$90,000	4.90%	\$6,000-	54,000	(6,000)	48,000	6,000
Maturing through 2012		\$7,000				
1999 Special Assessment						
Amount of issue - \$52,000	4.90%	\$4,000-	37,000	(3,000)	34,000	4,000
Maturing through 2013		\$5,000				
2001 Special Assessment						
Amount of issue - \$205,000	4.30%-	\$10,000-	155,000	(15,000)	140,000	20,000
Maturing through 2007	5.00%	\$20,000				
2006 Special Assessment						
Amount of issue - \$750,000	3.60%-	\$20,000-	-	750,000	750,000	20,000
Maturing through 2014	4.55%	\$55,000				
Total governmental activities			\$ 1,158,960	\$ 640,927	\$ 1,799,887	\$ 130,940

City of Mason, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-type Activities						
2002 Water and Sewage Disposal System Revenue Refunding Bonds Amount of issue - \$690,000 Maturing through 2006	3.00%	\$180,000	\$ 180,000	\$ (180,000)	\$ -	\$ -
2005 Water and Sewage Disposal System Revenue Refunding Bonds Amount of issue - \$100,000 Maturing through 2011	4.50%	\$13,027- \$15,572	83,805	(12,460)	71,345	13,027
Amortization of bond premiums			(6,981)	6,981	-	-
Total business-type activities			256,824	(185,479)	71,345	13,027
Total business-type and governmental activities			<u>\$ 1,415,784</u>	<u>\$ 455,448</u>	<u>\$ 1,871,232</u>	<u>\$ 143,967</u>
Component Units						
General obligations:						
1992 Local Development Finance Authority Amount of issue - \$425,000 Maturing through 2013	5.75%- 8.00%	\$25,000- \$35,000	\$ 255,000	\$ (20,000)	\$ 235,000	\$ 25,000
1994 Local Development Finance Authority Amount of issue - \$1,125,000 Maturing through 2010	6.69%	\$85,000	425,000	(85,000)	340,000	85,000
1998 Local Development Finance Authority Michigan Jobs Commission, Series A Amount of issue - \$1,386,000 Maturing through 2011	0.00%	\$106,615	746,308	(106,615)	639,693	106,615
1998 Local Development Finance Authority Michigan Jobs Commission, Series B Amount of issue - \$1,414,000 Maturing through 2011	0.00%	\$117,833	707,000	(117,833)	589,167	117,833
Total component units			<u>\$ 2,133,308</u>	<u>\$ (329,448)</u>	<u>\$ 1,803,860</u>	<u>\$ 334,448</u>

City of Mason, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for all debt are as follows:

	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 130,940	\$ 94,909	\$ 225,849	\$ 13,027	\$ 3,255	\$ 16,282	\$ 334,448	\$ 38,315	\$ 372,763
2008	149,151	73,847	222,998	13,613	2,668	16,281	334,448	30,778	365,226
2009	162,502	66,925	229,427	14,241	2,040	16,281	334,448	23,221	357,669
2010	150,866	59,431	210,297	14,892	1,390	16,282	339,450	15,489	354,939
2011	152,303	52,687	204,990	15,572	710	16,282	254,450	7,582	262,032
2012-2016	668,741	169,036	837,777	-	-	-	206,616	10,230	216,846
2017-2018	385,384	38,481	423,865	-	-	-	-	-	-
Total	\$ 1,799,887	\$ 555,316	\$ 2,355,203	\$ 71,345	\$ 10,063	\$ 81,408	\$ 1,803,860	\$ 125,615	\$ 1,929,475

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims, and participates in the Michigan Municipal League risk pool program for claims relating to workers' compensation, and in the Michigan Municipal Risk Management Authority for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Note 9 - Defined Benefit Pension Plan

Plan Description

The City participates in the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees, based on actuarial calculations.

Annual Pension Cost

For the year ended June 30, 2006, the City's annual pension cost of \$137,330 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit, and (d) postretirement benefit increases of 2.5 percent annually. The actuarial value of assets is determined on the basis of a method that calculates expected investment income at the valuation rate of return and adds a portion of the difference between the expected investment income and actual investment income earned on a market value basis. The difference in investment income between expected return and market return is recognized over a five-year period at the rate of 20 percent per year. The unfunded actuarial liability is being amortized as a level of percentage of payroll over a period of 30 years.

City of Mason, Michigan

Notes to Financial Statements June 30, 2006

Note 9 - Defined Benefit Pension Plan (Continued)

Three-year Trend Information

	Fiscal Year Ended June 30		
	2004	2005	2006
Annual pension costs (APC)	\$ 120,271	\$ 127,453	\$ 137,330
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Valuation as of December 31		
	2003	2004	2005
Actuarial value of assets	\$ 8,307,716	\$ 8,769,133	\$ 9,198,600
Actuarial accrued liability (AAL)	\$ 9,476,465	\$ 10,254,712	\$ 10,865,189
Unfunded AAL (UAAL)	\$ 1,168,749	\$ 1,485,579	\$ 1,666,589
Funded ratio	88%	86%	85%
Covered payroll	\$ 2,078,653	\$ 1,949,928	\$ 1,987,320
UAAL as a percent of covered payroll	56%	76%	84%

Note 10 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The City pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the City's group rates. Currently, 17 retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2006, the City made payments for postemployment health benefit premiums of \$81,399. The City obtains health care coverage through private insurers.

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions).

The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

City of Mason, Michigan

Notes to Financial Statements June 30, 2006

Note 11 - Prior Period Adjustments

During 2006, it was determined that various corrections to net assets and/or fund balance as stated in the June 30, 2005 year end financial statements were necessary. The following corrections were made to the applicable fund balance and/or net assets:

Governmental Activities

Net assets, as stated - June 30, 2005	\$ 6,360,834
Adjustment for deferred revenue	254,906
Adjustment for accrued compensated employee absences	303,724
Adjustment for state-shared revenue	<u>125,612</u>
Net assets, as restated - June 30, 2005	<u>\$ 7,045,076</u>

General Fund

Net assets, as stated - June 30, 2005	\$ 936,354
Adjustment for uncollectible taxes receivable	<u>(10,140)</u>
Net assets, as restated - June 30, 2005	<u>\$ 926,214</u>

Business-type Activities - Water and Sewer Fund

Net assets, as stated - June 30, 2005	\$ 12,704,150
Adjustment for compensated absences payable	(138,446)
Adjustment for unbilled water and sewer bills	<u>146,358</u>
Net assets, as restated - June 30, 2005	<u>\$ 12,712,062</u>

Internal Service Fund

Net assets, as stated - June 30, 2005	\$ 633,265
Adjustment for accrued compensated employee absences	<u>(9,521)</u>
Net assets, as restated - June 30, 2005	<u>\$ 623,744</u>

Note 11 - Prior Period Adjustments (Continued)

Component Units - Local Development Finance Authority

Net assets, as stated - June 30, 2005	\$ (940,759)
Adjustment to long-term debt to reflect amortization schedules	<u>(35,253)</u>
Net assets, as restated - June 30, 2005	<u>\$ (976,012)</u>

Component Units - Downtown Development Authority

Net assets, as stated - June 30, 2005	\$ 189,282
Adjustment for uncollectible taxes receivable	<u>(38,973)</u>
Net assets, as restated - June 30, 2005	<u>\$ 150,309</u>

It was determined that entries for the governmental activities related to deferred revenue and state-shared revenue had not been recorded in the prior year, and that the prior year balance for compensated absences included amounts attributable to business-type activities and the Internal Service Fund.

The General Fund had not recorded the relief of taxes receivable based upon a pending settlement of a lawsuit during the previous fiscal year.

It was determined that the business-type activities and the Water and Sewer Fund had not recorded the receivable for the earned but unbilled portion of customer receivables in the prior year. Additionally, a liability for compensated absences had inadvertently been recorded in another fund and not reflected in the business-type activities or the Water and Sewer Fund during the prior year.

The Internal Service Fund had not previously booked a liability for compensated absences.

It was determined that the Local Development Finance Authority component unit had attributed interest to a debt issue when the debt had been obtained interest free.

The Downtown Development Authority component unit had not recorded the relief of taxes receivable upon the settlement of a lawsuit during the previous fiscal year.

Note 12 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation that these fees be used only for construction code costs and an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Surplus at July 1, 2005	\$ 240,150
Current year building permit revenue	31,333
Related expenses - Direct costs	(73,187)
Related expenses - Indirect costs	<u>(7,319)</u>
Cumulative surplus at June 30, 2006	<u>\$ 190,977</u>

Required Supplemental Information

City of Mason, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ -	\$ -	\$ 2,453,396	\$ -
Less property taxes allocated to Local Street Fund	-	-	(806,837)	-
Net property taxes	1,637,320	1,647,245	1,646,559	(686)
Licenses and permits	76,590	40,745	41,524	779
State-shared revenues and state grants	671,000	665,310	660,722	(4,588)
Local sources	910,025	910,445	447,730	(462,715)
Refuse collection	271,800	275,930	275,933	3
Charges for services	179,330	195,720	196,455	735
Cable franchise fees	33,070	32,185	32,188	3
Fines and forfeitures	91,935	108,075	109,271	1,196
Interest and rentals	35,200	39,725	48,988	9,263
Other	73,180	72,030	70,490	(1,540)
Surplus from fund balance	-	205,880	-	(205,880)
Total revenues	3,979,450	4,193,290	3,529,860	(663,430)
Expenditures				
General government:				
Council	30,750	38,215	36,502	1,713
Administrator	355,650	370,510	368,472	2,038
Assessing	95,310	71,880	71,851	29
Board of review	700	690	690	-
Treasurer	476,695	482,420	356,217	126,203
Technology	53,100	68,775	66,072	2,703
Election	74,575	72,640	22,386	50,254
Building official and City Hall	74,455	75,070	57,289	17,781
Legal	60,000	60,000	59,903	97
Park Street property	56,985	59,820	17,835	41,985
Property	66,835	209,215	206,679	2,536
Cemetery	196,755	195,120	159,891	35,229
Planning and zoning	88,230	138,200	131,533	6,667
Civil defense	460	345	179	166
Engineering	2,235	235	-	235
Planning commission	1,660	1,515	1,355	160
Burden	39,725	33,535	33,528	7
Retiree benefits	71,860	81,315	81,399	(84)
Contingencies	415	415	-	415
Surplus to fund balance	208,995	-	-	-
Total general government	1,955,390	1,959,915	1,671,781	288,134

City of Mason, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures (Continued)				
Public safety:				
Police administration	\$ 223,885	\$ 221,840	\$ 182,433	\$ 39,407
Crossing guards	41,680	41,265	35,229	6,036
Police patrolling	901,460	943,725	805,674	138,051
Fire department	260,730	267,835	201,544	66,291
Total public safety	1,427,755	1,474,665	1,224,880	249,785
Public works:				
Public services	6,960	6,290	4,522	1,768
Street lighting	86,795	83,375	77,641	5,734
Street construction and repair	-	145,795	-	145,795
Sidewalk construction repair	1,655	4,975	1,221	3,754
Refuse collection	271,595	275,800	263,079	12,721
Total public works	367,005	516,235	346,463	169,772
Recreation and culture:				
Forestry	42,180	45,205	37,458	7,747
Parks and ball diamonds	159,445	164,050	135,786	28,264
Senior citizens	7,595	7,595	6,500	1,095
Library	21,080	26,480	12,150	14,330
Total recreation and culture	230,300	243,330	191,894	51,436
Community and economic development:				
Cable commission	4,050	4,600	4,275	325
Christmas decorations	4,595	4,190	3,435	755
Total community and economic development	8,645	8,790	7,710	1,080
Total expenditures	3,989,095	4,202,935	3,442,728	760,207
Other Financing Sources (Uses)				
Transfers in	9,645	9,645	9,645	-
Transfers out	-	-	(97,371)	(97,371)
Total other financing sources (uses)	9,645	9,645	(87,726)	(97,371)
Shortfall	\$ -	\$ -	\$ (594)	\$ (594)

City of Mason, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Local Street Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues				
Allocation of property taxes	\$ -	\$ 848,652	\$ 848,652	\$ -
State-shared revenues and state grants	118,410	112,575	114,583	2,008
Local sources	-	563,313	20,586	(542,727)
Charges for services	20,000	21,435	21,436	1
Interest and rentals	2,380	3,000	4,804	1,804
Surplus from fund balance	106,915	97,910	-	(97,910)
Total revenues	247,705	1,646,885	1,010,061	(636,824)
Expenditures				
Street construction	52,085	1,465,900	867,742	598,158
Street maintenance	169,580	159,275	152,373	6,902
Traffic services	6,040	4,705	2,824	1,881
Winter maintenance	20,000	17,005	16,973	32
Total expenditures	247,705	1,646,885	1,039,912	606,973
Shortfall	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (29,851)</u>	<u>\$ (29,851)</u>

City of Mason, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Special Assessment Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues				
Special assessments	\$ 48,420	\$ 53,605	\$ 60,291	\$ 6,686
Interest and rentals	2,500	10,000	10,389	389
Sale of bonds	740,380	750,000	750,000	-
Surplus from fund balance	15,183	2,495	-	(2,495)
Total revenues	806,483	816,100	820,680	4,580
Expenditures				
Debt service	66,103	66,100	60,096	6,004
Transfers to other funds	740,380	750,000	750,000	-
Total expenditures	806,483	816,100	810,096	6,004
Surplus	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,584</u>	<u>\$ 10,584</u>

Other Supplemental Information

City of Mason, Michigan

Special Revenue Funds				
	Major Streets	Street Construction	Rayner Bond	Park St. Property Fund
	Fund	Fund		
Assets				
Cash and investments	\$ 441,785	\$ 3,424	\$ 486,592	\$ -
Receivables - Other	126	-	-	-
Due from other governmental units	54,090	-	-	-
Due from other funds	1,712	-	22	-
Total assets	<u>\$ 497,713</u>	<u>\$ 3,424</u>	<u>\$ 486,614</u>	<u>\$ -</u>
Liabilities and Fund Balances				
Liabilities - Due to other funds	\$ -	\$ 3,424	\$ -	\$ -
Fund Balances				
Reserved	-	-	-	-
Unreserved	497,713	-	486,614	-
Total fund balances	<u>497,713</u>	<u>-</u>	<u>486,614</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 497,713</u>	<u>\$ 3,424</u>	<u>\$ 486,614</u>	<u>\$ -</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

Debt Service Fund	Capital Projects Fund	Permanent Fund	
Mason Building Authority	Capital Improvement Fund	Cemetery Trust	Total Nonmajor Governmental Funds
\$ 265	\$ 60,418	\$ 295,951	\$ 1,288,435
-	-	-	126
-	-	-	54,090
-	-	779	2,513
<u>\$ 265</u>	<u>\$ 60,418</u>	<u>\$ 296,730</u>	<u>\$ 1,345,164</u>
\$ -	\$ 3,476	\$ -	\$ 6,900
-	-	296,730	296,730
<u>265</u>	<u>56,942</u>	<u>-</u>	<u>1,041,534</u>
<u>265</u>	<u>56,942</u>	<u>296,730</u>	<u>1,338,264</u>
<u>\$ 265</u>	<u>\$ 60,418</u>	<u>\$ 296,730</u>	<u>\$ 1,345,164</u>

City of Mason, Michigan

	Special Revenue Funds			
	Street			
	Major Streets	Construction	Rayner Bond	Park St.
	Fund	Fund		Property Fund
Revenue				
State and local sources	\$ 327,502	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Interest income	15,213	-	17,571	-
Rent and royalties	-	-	38,602	-
Other	3,479	-	-	-
Total revenue	346,194	-	56,173	-
Expenditures				
Current - Public works department	275,602	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	41,982
Total expenditures	275,602	-	-	41,982
Excess of Revenue Over (Under) Expenditures	70,592	-	56,173	(41,982)
Other Financing Sources (Uses)				
Transfers in	-	-	-	41,982
Transfers out	-	(41,815)	(5,385)	-
Total other financing sources (uses)	-	(41,815)	(5,385)	41,982
Net Change in Fund Balances	70,592	(41,815)	50,788	-
Fund Balances - Beginning of year	427,121	41,815	435,826	-
Fund Balances - End of year	<u>\$ 497,713</u>	<u>\$ -</u>	<u>\$ 486,614</u>	<u>\$ -</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2006

Debt Service Fund	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
Mason Building Authority	Capital Improvement Fund	Cemetery Trust	
\$ -	\$ -	\$ -	\$ 327,502
-	-	7,315	7,315
12	2,884	8,737	44,417
-	-	-	38,602
-	290	-	3,769
12	3,174	16,052	421,605
-	-	-	275,602
-	15,877	-	15,877
32,599	23,064	-	97,645
32,599	38,941	-	389,124
(32,587)	(35,767)	16,052	32,481
32,599	22,790	-	97,371
-	-	(4,260)	(51,460)
32,599	22,790	(4,260)	45,911
12	(12,977)	11,792	78,392
253	69,919	284,938	1,259,872
\$ 265	\$ 56,942	\$ 296,730	\$ 1,338,264

City of Mason, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds June 30, 2006

	Delinquent Tax Fund	Payroll Fund	Total
Assets - Cash and cash equivalents	\$ 5,704	\$ 34,312	\$ 40,016
Liabilities			
Accrued and other liabilities	\$ -	\$ 29,602	\$ 29,602
Due to other governmental units	5,704	4,710	10,414
Total liabilities	\$ 5,704	\$ 34,312	\$ 40,016

City of Mason, Michigan

Report to the City Council

June 30, 2006

plante

moran

To the Honorable Mayor and
Members of the City Council
City of Mason, Michigan

We recently completed our audit of the financial statements of the City of Mason, Michigan (the "City") for the year ended June 30, 2006. During the performance of our audit, we noted items related to the internal controls systems and operations as a whole that we would like to bring to your attention. All items are presented for your consideration on attachments as outlined below:

TITLE	PAGE
Recommendations	
Accounting and Reporting Items	2-3
Credit Card Policy	3-4
Retiree Health Care Benefits	5
Legislative Issues	
Revenue Sharing	6
Update on Business Tax Reform	6-7
Cable Franchise Fee	7
Task Force Report Issued on Local Government Finance	7-8
Special Road Project Monies	8
Considering a Transit Tax?	8
911 Surcharge Sunset Extension	8
Government Wins Headlee Challenge	9
Ballot Proposals	9

We appreciate the opportunity to be of service to the City of Mason. The cooperation extended to us by your staff throughout the audit was greatly appreciated. We look forward to continuing our relationship with the City. Should you wish to discuss any of the items included in this letter, we would be happy to do so.

Plante & Moran, PLLC

August 18, 2006

Recommendations

City of Mason, Michigan

Recommendations

June 30, 2006

Accounting and Reporting Items

As discussed below, we noted items related to the internal control systems and operations as a whole that we would like to bring to your attention. We understand that due to the City's current staffing level, some of the following observations may not be fiscally efficient for the City to implement at the present time. However, we felt that these items deserved the attention of the Council.

Bank Reconciliations - We noted that the reconciliation function is performed by an employee that has cash collection and cash disbursing responsibilities. We understand that the City cross-trains all of their employees to handle a myriad of responsibilities, due to the staff size. We understand mitigating internal controls exist such as unopened bank statements being received by an independent employee and all completed bank reconciliations are reviewed. However, there is no evidence of a review of the prepared bank reconciliations. We recommend that the reviewer sign and date the reconciliations when performing their review.

Outstanding Checks - Per review of the bank reconciliations, we noted that outstanding checks dating back to 1999 and amounting to approximately \$7,000 are being carried on the bank reconciliations. As these items are outdated, and the checks' lives for cashing have effectively expired, we recommend that these items be investigated and removed from the reconciliation. This will help to streamline the reconciliation process and will give a more accurate representation of the cash position of the City.

Water and Sewer - It is understood that water has been pumped to customers and sewer service has been provided leading up to the end of the City's fiscal year. Because of the quarterly billing cycles, revenue and receipts for this service will not be recognized until some time after the end of the fiscal year. Under accrual accounting guidelines, the City should make an estimate of the amount of water and sewer services provided through June 30 and record an amount for "unbilled water and sewer charges." We recognize that this requires some estimating techniques, but it provides a better match of revenue and expenses for the operations of the Enterprise Fund.

Accounts Payable - An invoice received from a contractor for street maintenance and construction contained expenses related to the current fiscal year under audit and the upcoming fiscal year. However, the invoice did not distinguish services provided between the two fiscal years. Therefore, this invoice or a portion of this invoice was not reflected as accounts payable as of year end. We understand that contractors do not generally give consideration to their customers' fiscal years when preparing invoices; however, with larger construction contracts, we recommend that the City contact their contractors and request a cutoff billing as of year end. This will ensure that all liabilities for which the City is responsible are adequately reflected in the general ledger, and that accounting records will be complete.

City of Mason, Michigan

Recommendations

June 30, 2006

Accounting and Reporting Items (Continued)

GASB No. 34 Fund - The City does not maintain a full-accrual fund for the governmental activities. Although this is not required by the State, we recommend that the City consider creating a GASB No. 34 fund in order to track adjustments and balances related to the presentation of the City at a full-accrual level. Additionally, maintaining this fund will assist the City Council and the treasurer's department in understanding their full-accrual statements and will make records available to the necessary parties.

Property Tax Designation - While reviewing the City's Form L-4029, which states the taxable value of the City and the millage rates being charged to the citizens, we noted that a portion of the operating millage is to be spent on local street construction and repair. We commend the City for showing its concern and consideration for its local streets by designating a portion of the millage for its locally owned streets. However, at first inspection, we found this document confusing as it appeared that the City was violating its maximum charter millage by reporting the operating millage and the street millage separately. In order to maintain the integrity of what the City Council is trying to accomplish, and to avoid any misunderstandings of this document, we have attached Attachment 1, which is the current presentation of Form L-4029, and Attachment 2, which is an example of how we feel Form L-4029 could better present the Council's intent. We recommend that the City consider adopting the clarified format for future presentations of their Form L-4029.

Threshold of Council Approval - We noted that the current dollar threshold for expenditures that require approval by the City Council is \$500. Although this level of review allows for the Council to be deeply involved in the daily operations of the City, we would like to make you aware that this threshold may be low in comparison to similar communities. The thresholds for expenditures requiring Council approval for cities with similar revenue and expenditures, in our experience, range from \$1,000 to \$10,000. We recommend that the City consider increasing its threshold to reflect the increase in modern prices of supplies necessary for day-to-day operations. This will relieve the Council, the city manager, and several employees from preparing reports detailing these expenditures for review and presentation, which have already been reviewed at a department head level. This will save time and create more efficiency within the municipality.

Credit Card Policy

At the time of the audit, the City had not yet adopted a credit card policy detailing proper usage, limits, and safekeeping. We feel that an adopted credit card policy is necessary to comply with Public Act 266 of 1995. We are aware that at the time of the audit, the City was aware that they have not yet adopted a credit card policy. Additionally, we are aware that a credit card policy is currently being written. Nevertheless, we would like to recommend, in order to comply with P.A. 266, of which the City Council authorizes the use of credit cards and makes arrangements for the purchase of goods and/or services solely for the official business of the local unit under the following guidelines, as supplied by P.A. 266 of 1995:

City of Mason, Michigan
Recommendations
June 30, 2006

Credit Card Policy (Continued)

- (A) That the city finance director/treasurer is designated as the city official responsible for the City's credit card issuance, accounting, monitoring, retrieval and oversight of compliance with this credit card policy.
- (B) That only appropriate officials of the City are to be issued City credit cards.
- (C) That the officials using the City's credit cards shall submit appropriate documentation detailing the goods and services purchased, the cost of the goods and services, the date of purchase, and the official business for which it was purchased.
- (D) That holders of City credit cards are responsible for their protection and custody and shall report to the finance director/treasurer immediately if the credit card is lost or stolen.
- (E) That the officials issued credit cards shall return the credit card upon termination of his/her employment or service to the City.
- (F) That the internal controls, monitoring, accounting, and payment of credit card charges shall be the same as those in place for non-credit card purchases of goods and services.
- (G) That approval of credit card invoices for payment shall be made by the city manager and/or the finance director/treasurer.
- (H) That the balance due under credit card arrangements shall be paid within not more than 60 days.
- (I) Consistent violations of this policy by credit card holders will result in revocation of the credit card and immediate reimbursement to the City for any unauthorized purchases.

Additionally, the credit cards used by the City currently have limits ranging from \$2,000 to \$4,000. This allows purchases in excess of the current limit for City Council approval. We recommend that the City consider setting the credit card limits to the same level as that required for City Council approval in order to ensure that the City Council is reviewing all purchases for the level they determine.

City of Mason, Michigan

Recommendations

June 30, 2006

Retiree Health Care Benefits

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three-year period, similar to GASB No. 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008, depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months’ lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year’s contribution. Therefore, funding the contribution will actually reduce your long-run cost.

Legislative Issues

City of Mason, Michigan

Legislative Issues

June 30, 2006

Revenue Sharing

The State's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. The governor's proposed 2006/2007 budget did not include any additional funding for local governments. As a result, it is expected that overall revenue-sharing payments to communities for fiscal year 2006/2007 will remain stagnant at the 2005/2006 level.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state-shared revenue payments. However, for fiscal years 2004/2005, 2005/2006, and 2006/2007, the appropriation in the State's budget for revenue-sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. For those three years, revenue-sharing distributions are planned to be approximately \$1.6 billion less than amounts provided by statutory formulas. There appears to be no long-term solution to the State's structural deficit in its General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of changes made by the State to revenue sharing last year, counties were required to move their property tax levy date for their operating millage from December to July in July 2005. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple-year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

Considering the unknown impact of the State's budget crisis, the anticipated sunset of the statutory formula, and the elimination of the single business tax (see "Update on Business Tax Reform") on state-shared revenue, we encourage you to develop a contingency plan to deal with possible additional reductions to this revenue item.

Update on Business Tax Reform (and its impact on local government)

On August 9, 2006, the Michigan Legislature approved a voters' legislative "initiative" to repeal the Michigan Single Business Tax ("SBT") for tax years beginning after December 31, 2007, two years earlier than it was originally slated to end. In addition to the repeal, the law requires the Michigan Department of Treasury to prorate the SBT to result in the equivalent of zero tax on business activity occurring after December 31, 2007. Previously, the SBT was scheduled to be repealed for tax years beginning after December 31, 2009.

City of Mason, Michigan

Legislative Issues

June 30, 2006

Update on Business Tax Reform (and its impact on local government) (Continued)

Currently, there is no plan for replacement of this \$1.9 billion in lost revenue to the State. If no replacement revenue is identified, statutory revenue sharing may become a target to fill the hole in the State's budget.

Cable Franchise Fees

The State of Michigan has joined a number of other states considering statewide cable T.V. franchising. There is a bill (HB 6456) that would create a state video service authorization system that would replace the current system of local franchising of cable T.V. providers, and also would apply to new providers who would provide service through phone lines. Providers would have to provide customers with local stations and "public access" stations, as is currently required for cable systems. Providers would have to pay a fee of up to 5 percent of gross revenues that would be given to local governments in lieu of the current local cable franchise fees. The Legislature has decided to wait until after the November elections to continue discussions regarding this bill.

Task Force Report Issued on Local Government Finance

In 2005, the governor commissioned a task force to further study Michigan's Municipal Finance Model. The Commission has completed their work and released their report in May 2006. Findings of the report include:

- Revenue for local governments is flat, or declining, due to reductions in state revenue sharing and the interaction of the Headlee Amendment and Proposal A. Mature urban centers have been impacted the hardest.
- While revenues have been restricted, many expenditures are increasing beyond the control of local government. The expenditures include, but are not limited to health care, pension liabilities, and public safety costs.
- The current finance system, based on obsolete revenue foundations, is not resilient or flexible enough to withstand out-migration of taxpayers, whether due to economic downturn or availability of developable land.
- Legacy costs of postemployment benefits to retired workers threaten to overtake the majority of available new revenue for local units.

City of Mason, Michigan

Legislative Issues

June 30, 2006

Task Force Report Issued on Local Government Finance (Continued)

- Deferring maintenance on critical infrastructure such as roads, sewers, water mains, and buildings to meet ongoing increases in operating expenditures has left many local governments with crumbling infrastructure and growing future cost liabilities.

The full report can be accessed at: www.migfoa.org.

Special Road Project Monies

As part of the governor's 2006/2007 budget package, \$80 million was proposed to assist local government to move forward on certain transportation projects and get greater access to federal transportation matching funds. The Legislature approved the governor's proposal as Public Acts 139, 140, and 141 of 2006. Michigan Department of Transportation officials are reviewing applications for the rest of the funding and the remaining recipients will be announced later this year.

Considering a Transit Tax?

Public Act 175 of 2006 was enacted which extends the previous five-year period allowed to levy taxes for public transportation to 25 years. This extended period provides local governments the ability to take advantage of federal funding that was allocated in 2005's federal transportation reauthorization. Certain federal grant requirements require that communities support a system for at least 25 years. This public transportation tax does, however, require voter approval.

911 Surcharge Sunset Extended

Local governments receiving monies under the Emergency Service Enabling Act to support 911 operations faced the potential elimination or change in the funding formula at December 31, 2006. To allow further analysis of this issue, the sunset of the Act was extended one year to December 31, 2007 (Public Act 249 of 2006).

City of Mason, Michigan

Legislative Issues

June 30, 2006

Government Wins Headlee Challenge

The Court of Appeals (the “Court”) upheld a trial court decision in July 2006 (A&E Parking vs. Wayne County Metro, COA docket No. 261046) that the Wayne County Airport Authority has the right to charge user fees to the more than three dozen companies that sued the Airport Authority. The suit against the Airport Authority alleged that the fees charged to hotels, shuttle, and rental car companies and other users of the property that financially benefit from the airport’s location should be deemed illegal taxes under the Headlee Amendment. In rendering their opinion in the Authority’s favor, the Court considered the charges appropriate and not taxes for the following reasons:

State law permits fees because:

- The users such as car rental companies and hotels with shuttles get a benefit from the airport’s existence.
- The fees are not calculated arbitrarily and the users are not forced to pay the fees.
- The users could choose to take their business elsewhere and avoid the charge.

Despite the victory, it serves as a great reminder to local governments that fees must meet the tests established in the Bolt Case to avoid the classification of fees as unvoted taxes in violation of the Headlee Amendment.

Ballot Proposals

There are currently five issues on the November ballot. They include:

- HJR Z which puts the trust funds that fund the Department of Natural Resources into the Constitution
- Michigan Civil Rights Initiative to constitutionally prohibit race- and gender-based affirmative action
- Referendum on PA 160, 2004 seeking voter approval of the dove hunting season law
- SJR E to constitutionally restrict property seizures under eminent domain to only those for public purposes
- Citizens for Education requiring inflationary increases in education spending as proposed by the K-16 Coalition for Michigan’s Future.

On September 8, 2006, the Michigan Board of Canvassers, in a 4-0 vote, elected to keep the proposed constitutional amendment that has been labeled “Stop Overspending” off of the November 7, 2006 ballot. This proposal would have created new restrictions on local government finances, created tighter limits on state government revenues, and ended the pension system for the state legislature.

2005 Tax Rate Request (This form must be completed and submitted on or before September 30, 2005)

MILLAGE REQUEST REPORT TO COUNTY BOARD OF COMMISSIONERS

County Ingham	2005 Taxable Value of ALL Properties in the Unit as of 5-23-05. 189,232,885
Local Government Unit City of Mason	For LOCAL School Districts: 2005 Taxable Value of Non-Homestead and Non-Qualified Agricultural Properties if a millage is Levied Against Them. 80,081,992

**PLEASE READ THE
INSTRUCTIONS ON
THE REVERSE SIDE
CAREFULLY.**

You must complete this form for each unit of government for which a property tax is levied. Penalty for non-filing is provided under MCL Sec 211.119.


The following tax rates have been authorized for levy on the 2005 tax roll.

(1)	(2)	(3)	(4)	(5)**	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Source	Purpose of Millage	Date of Election	Original Millage Authorized by Election, Charter, etc.	2004 Millage Rate Permanently Reduced by MCL 211.34d "Headlee"	2005 Current Year "Headlee" Millage Reduction Fraction	2005 Millage Rate Permanently Reduced by MCL 211.34d "Headlee"	Sec. 211.34 Truth in Assessing or Equalization Millage Rollback Fraction	Maximum Allowable Millage Levy *	Millage Requested to be Levied July 1	Millage Requested to be Levied Dec. 1	Expiration Date of Millage Authorized
Charter	Opting	N/A	20.0000	18.7420	.9994	18.7307	1.0000	18.7307	10.3350		N/A
Charter											
Ammend	Streets	8/95	3.0000	2.9168	.9994	2.9150	1.0000	2.9150	2.9150		
									13.2500		

This is the area that we feel is confusing. Here, it appears that there are 23.0000 total mills that can be levied. The City Charter only allows for 20.0000 total mills to be levied.

Prepared by Julie A. Pulling, CMAE 3	Telephone Number 517-676-9155	Title of Preparer Assessor	Date
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As the representatives for the local government unit named above, we certify that these requested tax levy rates have been reduced, if necessary to comply with the state constitution (Article 9, Section 31), and that the requested levy rates have also been reduced, if necessary, to comply with MCL Sections 211.24e, 211.34 and, for LOCAL school districts which levy a Supplemental (Hold Harmless) Millage, 380.1211(3).

<input checked="" type="checkbox"/> Clerk	Signature 	Type Name Martin A. Colburn, Administrator	Date
<input type="checkbox"/> Secretary	Signature	Type Name	Date
<input type="checkbox"/> Chairperson			
<input type="checkbox"/> President			

* Under Truth in Taxation, MCL Section 211.24e, the governing body may decide to levy a rate which will not exceed the maximum authorized rate allowed in column 9. The requirements of MCL 211.24e must be met prior to levying an operating levy which is larger than the base tax rate but not larger than the rate in column 9.

** **IMPORTANT:** See instructions on the reverse side regarding where to find the millage rate used in column (5).

2005 Tax Rate Request (This form must be completed and submitted on or before September 30, 2005)

MILLAGE REQUEST REPORT TO COUNTY BOARD OF COMMISSIONERS

County Ingham	2005 Taxable Value of ALL Properties in the Unit as of 5-23-05. 189,232,885
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Source	Purpose of Millage	Date of Election	Original Millage Authorized by Election, Charter, etc.	2004 Millage Rate Permanently Reduced by MCL 211.34d "Headlee"	2005 Current Year "Headlee" Millage Reduction Fraction	2005 Millage Rate Permanently Reduced by MCL 211.34d "Headlee"	Sec. 211.34 Truth in Assessing or Equalization Millage Rollback Fraction	Maximum Allowable Millage Levy *	Millage Requested to be Levied July 1	Millage Requested to be Levied Dec. 1	Expiration Date of Millage Authorized
Charter	Opting	N/A	20.0000	18.7420	.9994	18.7307	1.0000	18.7307	10.3350		N/A
Charter											
Ammend	Streets	8/95	3.0000	2.9168	.9994	2.9150	1.0000	2.9150	2.9150		
									13.2500		

Amount of the operating millage

Added to emphasize the Council's intent, and to clarify any future misunderstandings.

Headlee reduction information for the s millage designation be kept separately a on the filed copy of 1-4029.


Amount of the total operating millage levied.

Added to emphasize the Council's intent, and to clarify any future misunderstandings.

Headlee reduction information for the street millage designation should be kept separately and not on the filed copy of the L-4029.

Prepared by Julie A. Pulling, CMAE 3	Telephone Number 517-676-9155	Title of Preparer Assessor	Date
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As the representatives for the local government unit named above, we certify that these requested tax levy rates have been reduced, if necessary to comply with the state constitution (Article 9, Section 31), and that the requested levy rates have also been reduced, if necessary, to comply with MCL Sections 211.24e, 211.34 and, for LOCAL school districts which levy a Supplemental (Hold Harmless) Millage, 380.1211(3).

<input checked="" type="checkbox"/> Clerk	Signature	Type Name	Date
<input type="checkbox"/> Secretary		Martin A. Colburn, Administrator	
<input type="checkbox"/> Chairperson	Signature	Type Name	Date
<input type="checkbox"/> President			

* Under Truth in Taxation, MCL Section 211.24e, the governing body may decide to levy a rate which will not exceed the maximum authorized rate allowed in column 9. The requirements of MCL 211.24e must be met prior to levying an operating levy which is larger than the base tax rate but not larger than the rate in column 9.

**** IMPORTANT:** See instructions on the reverse side regarding where to find the millage rate used in column (5).